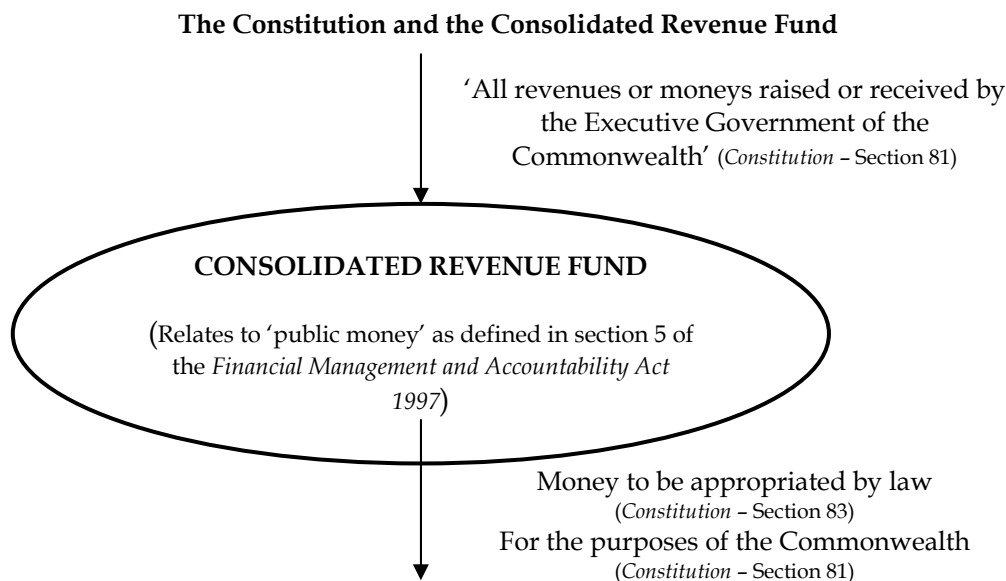


Introduction

The purpose of Budget Paper No. 4 is to provide, in a single publication, information on appropriations being proposed in the budget year. It contains reproductions of the Budget annual appropriation bills, as well as the Agency Resourcing table that shows, by agency, all moneys expected to be available for agencies to spend by source of appropriation¹. It also has an index to agencies so that all resourcing for an individual agency can be readily found.

APPROPRIATIONS

The Constitution, through section 81, provides for one Consolidated Revenue Fund (CRF), formed from all revenues or moneys raised or received by the Executive Government of the Commonwealth. The CRF is 'self-executing'. That is, moneys paid to the Commonwealth or any person or organisation acting on behalf of the Commonwealth automatically form part of the CRF. Whether or not the Commonwealth has credited those moneys to a fund or an account, the moneys form part of the CRF upon receipt by, or on behalf of, the Commonwealth. This covers taxes, charges, levies, borrowings, loan repayments and moneys held in trust. Section 81 does not deal with the manner in which the moneys forming the CRF shall be kept, nor does it deal with the keeping and auditing of the public accounts.²



¹ References to "agency" in Budget Paper 4 are references to agencies under the *Financial Management and Accountability Act 1997*, bodies under the *Commonwealth Authorities and Companies Act 1997* and the High Court.

² This view was stated by Justice Brennan in the High Court decision, *Northern Suburbs General Cemetery Reserve Trust v Commonwealth of Australia* (1993) 176 CLR 555 at 580.

Section 83 of the Constitution provides that no money can be drawn from the Treasury of the Commonwealth unless authorised by an appropriation made by law. Section 81 provides that all appropriations from the CRF must be for an identifiable purpose. The 'Treasury' of the Commonwealth, noted in section 83, equates to the CRF referred to in section 81. Together, sections 81 and 83 ensure that there must be an appropriation, made by law, for the purposes of the Commonwealth, before money can be drawn from the CRF, thereby safeguarding Parliament's control over government spending.

Laws authorising money to be drawn from the CRF are either special appropriations, or are one of the annual appropriation Acts. Budget Paper No. 4 contains the three Budget annual appropriation bills: Appropriation (Parliamentary Departments) Bill (No. 1) 2005-2006, Appropriation Bill (No. 1) 2005-2006 and Appropriation Bill (No. 2) 2005-2006.

Section 53 of the Constitution provides that the Senate may not amend proposed laws appropriating money for the ordinary annual services of the government. Under section 54 of the Constitution, a proposed law appropriating money for the ordinary annual services of the government can only deal with such appropriations. Accordingly, the annual appropriations are split into those that provide for the ordinary annual services of the government (Appropriation Bill (No. 1) 2005-2006) and those that do not (Appropriation Bill (No. 2) 2005-2006).

In order to settle the question of which matters fit within the term 'ordinary annual services of the government' and those which do not, the Senate and the Government made an agreement, called the 'Compact of 1965'. The Compact (as altered in 1999 for the introduction of accrual budgeting) determines the allocation of items between the annual appropriation bills.

The services of the three parliamentary departments are not considered to be ordinary annual services of the government nor services of the government as such. Accordingly, there is a third budget annual appropriation bill, the Appropriation (Parliamentary Departments) Bill (No. 1) 2005-2006, which proposes appropriations for the operations of the parliamentary departments.

A second set of three annual appropriation bills is usually introduced during the financial year. Called the Additional Estimates (or just Additional) appropriation bills, those three bills correspond to the three budget appropriation bills and continue the numbering sequence: Appropriation Bill No. 3 (i.e. ordinary annual services), Appropriation Bill No. 4 (i.e. other annual services) and Appropriation (Parliamentary Departments) Bill No. 2. Further annual appropriation bills can be introduced during the year if required.

The annual appropriation bills are the source of funding for approximately a quarter of all government expenditure each year. The remaining three quarters is funded by special appropriation provisions in other legislation. Special appropriations provide money for particular purposes, for example, to finance a particular project or a programme such as social security payments. Some special appropriations state an amount that is appropriated for the particular purpose. They are sometimes referred to

as being 'limited by amount'. Others do not state an amount but the appropriation is instead determined by legislative criteria or conditions. They are sometimes referred to as unlimited by amount and have also been referred to as 'standing' appropriations.

A proportion of expenditure from special appropriations is expenditure from special accounts. Special accounts are established for specific purposes under Sections 20 and 21 of the *Financial Management and Accountability Act 1997* (FMA Act). Special accounts are a method of delivering programmes that are funded by indirect taxes or other compulsory imposts, contributions by other governments, money appropriated by the Parliament for crediting to a special account or contributions by members of the community.

Where special accounts are credited with amounts, such as from an indirect tax, a special appropriation or an annual appropriation (as is provided for under Section 14 of Appropriation Bill (No. 1) 2005-2006), the FMA Act provides an appropriation for the purposes of the Special Account up to the balance of the account.

The annual appropriation bills, portfolio budget statements and agency annual reports are an integrated package showing the allocation of resources to government outcomes by agencies. The portfolio budget statements contain details of the estimated payments under each of the annual appropriation bills and legislation containing special appropriations. They also contain details of estimated receipts from all sources, including taxation, customs, excise and receipts from fees and charges collected by agencies. Finally, the appropriation bills declare portfolio budget statements to be relevant documents for statutory interpretation. They can be referred to if issues arise over how to interpret the associated annual appropriation acts.

The portfolio budget statements are prepared by portfolio ministers for the purposes of Senate Legislation Committees' examination of the Government's budget. The statements are published as Budget Related Papers and tabled in the Parliament at budget time.

More information on appropriations is provided on the Department of Finance and Administration web site at:

http://www.finance.gov.au/budgetgroup/Cash_and_Appropriation_Managem/appropriation_bills.html.

STRUCTURE OF APPROPRIATIONS

The annual appropriation bills propose the payment of specified amounts by agencies in achieving the government's outcomes. Except in two special situations, the Minister for Finance and Administration (Finance Minister) has a discretion to issue out of the CRF an amount no greater than what is listed in the schedules to the bills. Agencies do not have an automatic right to these funds.

In accordance with the Constitution, appropriations are provided for particular purposes. For all expenses appropriations, those purposes are the outcomes which are shown beside the appropriation amounts. Outcomes are the results or impacts on the community or the environment that the Government intends to achieve. They are specified by the responsible portfolio minister with the endorsement of the Finance Minister.

Further information on outcomes and on the outcomes and outputs framework more generally is available at:

http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes___outputs_frameworko.html.

Appropriation Bill (No.1)

Appropriation Bill (No. 1) 2005-2006 provides for matters that are considered to be the ordinary annual services of the government and hence cannot be amended by the Senate under section 53 of the Constitution.

In Appropriation Bill (No.1) 2005-2006, amounts are appropriated according to whether they are administered or departmental. Departmental expenses are expenses over which an agency has control.³ They represent the ordinary net operating costs of government agencies. Departmental expenses include:

- salaries;
- accruing employee entitlements; and
- operational expenses including depreciation.

Departmental expenses are appropriated as a single amount for each agency. The single appropriation represents the cost of all the outputs that the agency plans to deliver. Appropriation Bill (No. 1) 2005-2006 shows a split of that amount across agency outcomes. The split is notional, providing an indication of the departmental resources that will be required to achieve agency outcomes.

Administered expenses are those administered by the agency on behalf of the Government. They are normally related to activities governed by eligibility rules and conditions established by the government or Parliament such as grants, subsidies and benefit payments. Agencies have no discretion over how administered expenses are spent. Administered expenses are appropriated separately for agency outcomes (i.e. the split across outcomes is not notional), specifying precisely how much can be expended on each outcome.

³ This definition is in accordance with Australian Accounting Standard 29.

The detail on appropriations in Appropriation Bill (No.1) 2005-2006 is set out in Schedule 1 to the Bill.

Appropriation Bill (No.2)

Appropriation Bill (No. 2) 2005-2006 provides appropriations for matters that, under the 'Compact of 1965', are not the ordinary annual services of government. It covers both administered expenses (grants to the states, payments to the territories and new administered expenses) and 'non-operating' costs.

Non-operating costs (sometimes called 'capital' costs) comprise:

- '*equity injections*', which are provided to agencies to, for example, enable investment in new capacity to produce departmental outputs when normal cash flows are insufficient;
- '*loans*', which are provided to agencies by government when an investment to produce future departmental outputs is expected to result in a direct return such as an efficiency saving (these are not formal loans established in contracts but are agreements between the Government and the agency);
- '*previous years' outputs*' appropriations, which provide funding to replenish accrued appropriations used to deliver departmental outputs in a previous year. This can occur, for example, when a decision is made to implement a new activity after the date for inclusion in the additional appropriation bills. Such activities are funded initially from existing accrued appropriations which are then replenished by the *previous years' outputs* appropriation; and
- '*administered assets and liabilities*' appropriations, which provide funding for acquiring new administered assets, enhancing existing administered assets and discharging administered liabilities relating to activities administered by agencies on behalf of the government.

Schedule 1 to Appropriation Bill (No. 2) 2005-2006 confers on the ministers named, power to determine:

- conditions under which payments to the States and Territories may be made; and
- the amounts and timing of those payments.

The detail on appropriations in Appropriation Bill (No. 2) 2005-2006 is set out in Schedule 2 to the Bill.

Appropriation (Parliamentary Departments) Bill (No.1)

The Appropriation (Parliamentary Departments) Bill (No.1) 2005-2006 contains appropriations for all the expenses and non-operating costs of the three parliamentary departments.

Annual appropriations generally

The annual appropriations acts are not expressed in terms of a particular financial year and so do not automatically lapse. Generally, annual appropriations are available until they are either spent or the appropriation act in question is repealed.

Amounts appropriated for departmental expenses and for non-operating costs can be subject to a reduction process first introduced in the additional estimates appropriations acts for 2003-2004. Under this process, on request in writing from a responsible minister for an agency, the Finance Minister may issue a determination to reduce the agency's departmental expense or non-operating costs appropriation. Requests for amounts to be lapsed may arise, for example, because the appropriation is no longer required. Until the Finance Minister issues a determination under this process, moneys appropriated for departmental expenses and non-operating costs may be issued from the CRF.

Appropriations for administered expenses are subject to a determination by the Finance Minister on the amounts to be issued. The effect of that determination is to prevent any part of the appropriation that has not been expensed in the year from being issued from the CRF. By convention the Finance Minister issues determinations in relation to administered expenses appropriations following the completion of each financial year. Unlike the reduction determinations for departmental outputs or non-operating costs discussed above, the determinations for administered expenses do not reduce the appropriation. Rather, they are a declaration by the Finance Minister of the maximum amount that may be issued for the respective items.

There can be situations where agencies require extra funding for urgent and unforeseen expenditure for which there is insufficient appropriation. In such cases, Appropriation Bill (No. 1) 2005-2006 and Appropriation Bill (No. 2) 2005-2006 each contain a clause entitled 'Advance to the Finance Minister' (AFM), which enables the Finance Minister to provide urgent additional funding to agencies. The AFM provision in Appropriation Bill (No. 1) 2005-2006 is limited to a maximum of \$175 million and in Appropriation Bill (No. 2) 2005-2006 is limited to \$215 million. Details on each amount issued under the AFM are provided to Parliament through the requirements of the *Legislative Instruments Act 2003* and by an annual statement. The total amount that may be issued from the AFM each year is 'replenished' by each succeeding appropriation bill. Thus, a further \$175 million can be issued under Appropriation Bill (No. 3) and \$215 million under Appropriation Bill (No. 4) each year. However, no additional amounts are issued from past appropriation acts.

Appropriation (Parliamentary Departments) Bill (No. 1) 2005-2006 also contains a clause corresponding to the AFM provided in the other two bills. Called the Advance to the Presiding Officer, the total that may be issued is limited according to the parliamentary department concerned.

Appropriation items in Appropriation Bill (No. 1) 2005-2006 may be increased where agreements under s 31 of the FMA Act are entered into between the Finance Minister and the Minister responsible for the item. Section 31 agreements are mostly of a

departmental nature and allow agencies to retain and spend receipts that would not otherwise be supported by an appropriation. Section 10 of Appropriation Bill (No. 1) 2005-2006 provides that relevant items may be increased by the amount of the related receipts. Receipts can include moneys from cost recovered activities and the sale of minor assets.

All three budget appropriation bills also set out for information purposes a figure for the previous financial year, termed the Actual Available Appropriation. That figure is printed in italics under each appropriation amount. It is calculated by adding the amounts appropriated for each item in the annual appropriation acts plus adjustments such as AFMs and declared savings. The Actual Available Appropriation provides a comparison with the appropriation proposed for the budget year. It does not affect the amounts available at law. In some cases there are discrepancies between the sums of items and the totals of the Actual Available Appropriation. Those discrepancies are due to rounding.

Section 32 of the FMA Act gives the Finance Minister the power to transfer appropriations from one agency to another where, for any reason, a function of one agency becomes the function of another. The Actual Available Appropriation shows the impact of those transfers rather than the amounts that were originally appropriated.

THE AGENCY RESOURCING TABLE

The Agency Resourcing table in Budget Paper No. 4 shows, by portfolio and by agency, and for expenses by agency outcome, the estimated amounts of money that agencies are expected to have available for their activities during the budget year. The amounts are broken down by the different sources of funding: the annual appropriation bills 1 and 2; special appropriations; and receipts from independent sources.

Although the annual appropriation amounts are specified exactly, the majority of the amounts agencies expect to spend from special appropriations and receipts from independent sources are estimates based on models of client numbers etc.

Receipts from independent sources include moneys received that:

- under section 31 agreements, may be spent on the outcomes of agencies under the FMA Act; and
- bodies subject to the *Commonwealth Authorities and Companies Act 1997*, may spend in accordance with their enabling legislation or Ministerial agreement.

Note that, because some agencies provide funding to others, the total amounts in the Agency Resourcing table cannot be used to calculate the total resourcing at the whole of government level. Similarly, transactions between agencies while shown in agency

financial statements, are not reflected in the Commonwealth's consolidated financial statements. This treatment is in accordance with section 5 of the annual appropriation bills, which states that notional transactions between agencies are treated as 'spending' the appropriation, even though the amounts do not leave the CRF.

For 2005-06 a number of agencies have shown estimates of cash flows under particular special appropriations. For example, the Australian Taxation Office and the Australian Customs Service have included estimated refunds of taxation and duties receipts. Under the accounting standards, such refunds are "netted-off" against revenue and so are not shown in agency financial statements. The Department of the Treasury has shown amounts of GST paid to the States and Territories which, also, are not shown in that Department's financial statements. Lastly, the Australian Office of Financial Management has shown estimates of amounts which it expects to invest and reinvest in Reserve Bank term deposits. Those estimates provide for reinvestment of amounts and so do not indicate the total amount on deposit at any one point in time.

THE GOODS AND SERVICES TAX

Australian Government departments and agencies generally pay and collect Goods and Services Tax (GST) on the same basis as other Australian entities. They may also 'recover' GST from the Australian Taxation Office. The amounts of appropriation shown in the three budget appropriation bills for 2005-2006 do not include an allowance for recoverable GST. The appropriations shown therefore represent the net amount that Parliament is being asked to allocate to particular purposes. This aligns with the accounting treatment of expenses and assets and the presentation of budget estimates.

In section 30A of the FMA Act, Parliament has provided that the original appropriation be increased by the recoverable GST on payments by FMA agencies from all appropriations limited by amount. Section 30A operates by increasing existing limited appropriations by the GST qualifying amount incurred by a FMA agency. In relation to the annual appropriation acts, section 30A has the effect of increasing an appropriation by the amount of the GST qualifying amount arising from acquisitions in respect of the appropriation. As a result, there is sufficient appropriation for payments under an appropriation item provided that the amount of those payments, less the amount of recoverable GST, can be met from the initial amount shown against the item in the appropriation bills.